HAWAII CROP IMPROVEMENT ASSOCIATION

In Strong Opposition to SB 2599
Relating to GET Tax

LATE

Senate Committee on Education
Wednesday 02-10-16 1:15 pm in conference room 229

Aloha Chair Kidani, Vice Chair Harimoto and members of the committee,

My name is Bennette Misalucha, Executive Director of the Hawaii Crop Improvement Association (HCIA). HCIA is a Hawaii-based non-profit organization promoting agricultural bio tech to help farmers and communities succeed. Through education, collaboration, and advocacy, we work to ensure a safe and sustainable food supply, support responsible farming practices, and build a healthy state economy.

HCIA strongly opposes SB 2599 which provides an increase from four percent to five percent in the General Excise tax in order to fund the Department of Education operations.

We are in full support of the intent of the bill which was to provide much needed resources to the DOE. However, this goal should not be at the expense of the business community.

In analyzing the impact, the Chamber of Commerce of Hawaii reported that, if the measure passes, it will *"increase taxes for taxpayers in Hawaii by approximately $780 million or another way, will increase the general excise tax by 25%*. "

The additional taxes will result in large financial burden for both the business and the consumers. It may even drive consumers to shop more things online.

Thank you for allowing me to submit my testimony.

Sincerely,

Bennette Misalucha
Executive Director, Hawaii Crop Improvement Association

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NFIB
The Voice of Small Business.

LATE

Before the Senate Committee on Education

DATE: February 10, 2016

TIME: 1:15 p.m.

PLACE: Conference Room 229

Re: SB 2599 Relating to Taxation

Testimony on behalf of NFIB Hawaii

Aloha Chair Kidani, Vice Chairs Harimoto, and members of the Committee:

Senate Bill 2599 would increase the general excise tax from four per cent to five per cent and require that additional revenue collected from the general excise tax increase be deposited into a special account in the general fund for department of education operations, including salaries and maintenance costs.

We are testifying on behalf of the National Federation of Independent Business (NFIB) to respectfully oppose this measure. NFIB Hawaii has consistently opposed a surcharge on excise tax. NFIB is committed to advocating for fiscal solutions that will provide both tax relief and certainty to small businesses because we believe such solutions are necessary to promote a sound economy. We believe that an increase in excise tax for education, while well meaning, will negatively impact the state's economy, undermining the achievement of the goals of this measure.

The National Federation of Independent Business is the largest advocacy organization representing small and independent businesses in Washington, D.C., and all 50 state capitals. In Hawaii, NFIB represents nearly 1,000 members. NFIB's purpose is to impact public policy at the state and federal level and be a key business resource for small and independent business in America. NFIB also provides timely information designed to help small businesses succeed.

We request that this bill be deferred.

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Chamber of Commerce HAWAII
The Voice of Business

MAUI CHAMBER OF COMMERCE
OUR BUSINESS IS MAUI BUSINESS

LATE

TESTIMONY IN OPPOSITION TO SB 2599
RELATING TO TAXATION

TO THE SENATE COMMITTEE ON EDUCATION
Hawaii State Capitol, Conference Room 229
February 10, 2016
1:15 p.m.

Dear Chair Kidani, Vice Chair Harimoto, and Members of the Committee:

Thank you for the opportunity to testify in strong opposition of SB2599 that seeks to increase the general excise tax by 1%, from 4% to 5%, with the additional revenue collected from the general excise tax increase slated to be deposited into a special account in the general fund for Department of Education (DOE) operations, including salaries and maintenance costs.

The Maui Chamber of Commerce is the voice of Maui businesses, representing about 600 businesses of which roughly 95% are small businesses with fewer than 25 employees. We work on behalf of our members and the entire business community to fulfill our mission of advancing and promoting a healthy economic environment for business, advocating for a responsive government and quality education, while preserving Maui's unique community characteristics. We serve as an effective non-partisan, non-sectarian voice for business on legislative, business, social, governmental and community issues affecting Maui.

Our organization has always stood for quality education; however, we have had concerns for years about the cost of education in Hawaii and the level of quality being received for the dollars being spent. This is why we have advocated an independent audit of the DOE. We feel there is room within the existing dollars being spent on education in Hawaii to reallocate funds to better meet priority needs and improve the overall educational system.

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Additionally, we have and must continue to oppose a General Excise Tax (GET) increase at this time. The GET is a regressive tax that hurts those who are least able to pay the most. It would increase our cost of living and harm both businesses and residents. While the economy has seen some good signs of late, we are still seeing global turbulence that is keeping people cautious, especially on Maui where the closing of HC&S (our state's last remaining sugar plantation) will mean the loss of roughly 675 jobs.

Our members are continually concerned that the state's answer to dealing with a budget crunch is increasing taxes without evaluating systems. A GET was even proposed during the height of the recession when many were losing their jobs and homes and continues to be proposed today, however, now our state is looking to direct the increase to education or agriculture, without any economic analysis of the impact the GET increase will have on the people of Hawaii. Further, we do not feel this model of using the GET to fund specific departments or programs is appropriate; it should not be used for specific set asides.

Lastly, the bill does not guaranty that the funds will only be used for the DOE and does not spell out what the expected $780 million in additional revenues will accomplish, which again leads people to question how state money is being spent when priorities have not been established within the DOE and across all state programs.

Therefore, we strongly oppose SB2599 and ask that this bill be deferred.

Sincerely,

Pamela Tumpap

Pamela Tumpap
President

LATE

HAWAII RESTAURANT ASSOCIATION

Date: February 9, 2016

Chair Kidani, Vice Chair Harimoto, Members of Senate Committee on Education

Re: Senate Bill 2599 Relating to Taxation

The Hawaii Restaurant Association strongly opposes SB 2599 which increases the general excise tax from four percent to five percent and requires the additional revenue for the general fund for the Department of Education Operations, including salaries and maintenance costs.

The HRA is a statewide advocacy organization representing over 3,400 restaurants here in Hawaii, most of which could be classified as small and medium size businesses.

We support public education but this 25 % increase is general excise tax is huge and will be a financial burden for both businesses and our consumers. We are also very concerned about how the usage of the funds will be for and what end results we are to receive.

Thank you for the opportunity to testify.

LATE

Testimony of Hawaiʻi Appleseed Center for Law and Economic Justice
Commenting on **SB 2599, Relating to Taxation (Part XIII of SB 2586)**
Senate Committee on Education
Scheduled for Hearing Wednesday, February 10, 2016, 1:15 AM, Room 229

Hawaiʻi Appleseed Center for Law & Economic Justice is a nonprofit law firm created to advocate on behalf of low income individuals and families in Hawaii. Our core mission is to help our clients gain access to the resources, services, and fair treatment that they need to realize their opportunities for self-achievement and economic security.

Dear Chair Kidani, Vice Chair Harimoto, and Members of the Committee on Education:

Thank you for the opportunity to testify on this measure. While we appreciate the intent of SB 2599, we wish to raise strong objections to increasing Hawaiʻi's General Excise Tax (GET) as a means to fund education and to propose alternative sources for the much-needed funds to improve our education system.

We completely agree with and support the proposition that Hawaiʻi's schools are in desperate need of additional funds. Our teachers' pay is nowhere near the level it needs to be in light of the fact that Hawaiʻi has the highest overall cost of living in the nation. According to the Bureau of Labor Statistics, in 2013 the average teacher's salary in Hawaiʻi was $55,930—almost $10,000 less than what is required to afford fair market rent for a 2-bedroom apartment.

Additionally, our school facilities are in desperate need of additional maintenance. The quality and state of education facilities sends very clear messages to our students about how much we value their education and safety. Every child in this state deserves to have access to education facilities that are safe, clean, and comfortable to ensure that they have the best chance we can give them to excel.

The proposed additional spending in these areas is a laudable goal worthy of the legislature's full support.

However, as a matter of good tax policy we are strongly opposed to increasing the GET as a means to fund these additional expenditures. Because the GET is levied on everyday expenditures, it is a significant contributor to Hawaiʻi painfully and counterproductively regressive tax system. It hits low-income households the hardest because they must spend nearly all of their income on necessities that are subject to the GET.

Hawaiʻi's low-income residents face <u>the second highest state and local tax burden in the country</u>. Our lowest-income families pay 13 % of their income on state and local taxes, while the top earners spend only 7 %. These tax burdens disproportionately affect lower income families, making it harder for them to work their way into the middle class, and pushes the lowest earners deeper into poverty. Any increase to the GET only serves to increase these downward pressures on struggling families.

It should be a fundamental principle of our taxation system that taxes be levied according to taxpayer's ability to pay. Any other foundation leads to a morass of special-interest carve-outs and regressive structures that only serve to make life more difficult for those most in need.

In place of an increase to the GET we propose the following eight revenue measures as sources of additional funds that can be spent on education without unnecessarily increasing the extraction of wealth from those least able to afford it:

1. **Eliminate the Property Tax Deduction** - Hawaiʻi follows the federal treatment of income by allowing a deduction for property taxes paid. Only those taxpayers who itemize deductions are able to benefit from the property tax deduction. Meanwhile, property taxes are passed along to renters in the form of higher rents, but they do not receive a similar tax write-off. Simply removing the property tax deduction would generate **$27.2 million** in new revenue.
2. **Eliminate the State Income Tax Deduction** - Hawaiʻi is one of only seven states in the U.S. that allows taxpayers to deduct state income taxes they have paid during the course of a year when calculating their final state income tax bill for that same year. This deduction has been criticized by tax and budget experts as "irrational," "nonsensical," and "poor tax policy." Were the state to take the sensible step of fully eliminating the state income tax deduction, the Department of Taxation estimates that Hawaiʻi would collect approximately **$63 million** in new revenue.
3. **Reinstate the 2009 Tax Increase on Wealthy Households** - In 2009, the state increased income tax rates on individuals making over $96,000 per year. In 2015, those tax rates were allowed to sunset, resulting in Hawaiʻi's wealthiest residents received a **$48.6 million** tax reduction, with 93 % of that money going to the top 1 % of income earners.
4. **Eliminate the Tax Break for Capital Gains Income** - Hawaiʻi is one of just eight states that provides a substantial tax break for capital gains income. The tax break given to capital gains is one of the most inequitable features of the Hawaiʻi state tax system, with 92 % of the benefit going to the richest 1 % of Hawaiʻi residents. Moreover, it is extended to non-residents who profit from trading investment assets, such as local real estate. If the state would tax capital gains at the same rates as income from other sources, it would generate around **$14.8 million** in additional revenue.
5. **Prevent High-Income Taxpayers from Benefitting from Lower Tax Brackets** - While Hawaiʻi's maximum marginal tax rate of 11 % kicks in at $200,000 for a single taxpayer and $400,000 for married couples filing jointly, households above these income levels do not pay an 11 % tax on all of their income. While this marginal tax rate structure may make sense for most taxpayers, three states—Connecticut, Nebraska, and New York—have made it more equitable by enacting measures that gradually phase out these lower rates for the very richest taxpayers. Adopting a similar approach in Hawaiʻi would raise millions of dollars in additional tax revenues and reduce the intense regressivity of the state's overall tax system.
6. **Create a Single Net Corporate Income Tax Rate** - Hawaiʻi currently taxes corporate income at different rates based upon income, in tax brackets ranging from 4.4 to 6.4 %. Our top corporate income tax rate

is the 19th lowest in the nation, and our per-capita corporate tax collections are the 9th lowest. Consolidating our corporate income tax brackets and raising the net corporate income tax rate to 9 % is projected to generate approximately **$27.2 million** in new revenues.

7. **Eliminate the "Dividends Paid" Deduction for a Real Estate Investment Trusts** - Real estate investment trusts (REITs) are business entities developed in the mid-1960s to enable small investors to invest in income-producing real estate. A REIT is taxed as a corporation but allowed to deduct all of its dividend payments from its taxable income. This tax structure causes much of the income produced by local real estate to go untaxed in Hawai'i. Because REITs are so common in Hawai'i, and because the majority of REIT shareholders do not live in Hawai'i, estimating the exact amount of revenue that the state is losing is difficult. However, analyses of the larger REITs that own property in Hawai'i suggest potential tax revenues from **$30 to $50 million**.

8. **Eliminate Tax Breaks for Wealthy Retirees** - As Hawai'i's population ages, the revenue lost by exempting retirees' pension income from tax will grow significantly. By completely exempting pensions from taxation, Hawai'i is unfairly shifting the tax burden from wealthy retirees to working taxpayers, including working seniors. Currently, Hawai'i is one of only ten states to provide a blanket exemption for government pensions, regardless of income or wealth. It also offers one of the most generous private pension exemptions in the country. By requiring wealthy retirees to shoulder their fair share of the tax burden, Hawai'i would increase tax revenues while starting to reform the disparity inherent in special exemptions based exclusively on a taxpayer's age, rather than ability to pay. According to testimony given by the Abercrombie administration in 2011, estimates for revenue gains under the governor's previously proposed thresholds were approximately **$191.3 million** in fiscal year 2013, and **$206.7 million** for fiscal year 2014.

Any of these proposals would provide significant revenues for much-needed spending on education without balancing those new expenditures on the backs of Hawai'i' low-income families. While each of these measure would likely meet significant resistance from the special interests they were created to benefit, they represent smarter tax policy than doubling down on our wrong-headed, painfully regressive tax structure.

We thank you again for the opportunity to testify.